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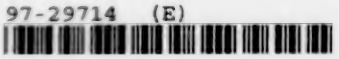
UNITED NATIONS REFORM: MEASURES AND PROPOSALS

Revolving Credit Fund

Note by the Secretariat

97-29714 (E)



REVOLVING CREDIT FUND

Introduction

1. The present paper elaborates the proposal of the Secretary-General for the establishment of a Revolving Credit Fund (see A/51/950 of 14 July 1997, paras. 220-222, and the related recommendations).

Background

2. The United Nations has experienced recurrent financial crises owing to a large and growing volume of arrears of payments. Notwithstanding the legal obligation of Member States to pay their assessed contributions in full, on time and without conditions and a major effort by many Member States to meet those obligations, the situation has continued to persist. As a result, the Organization's financial reserves have been depleted and the Secretary-General has been obliged to borrow from peacekeeping accounts to meet regular budget requirements. This method of financing, which may well not be available in future, as the level of peacekeeping activity and assessments declines, has meant serious delays in reimbursing Member States for troop and equipment costs. The resulting precarious financial situation of the Organization also diverts attention from its substantive work and undermines efforts at reform. Only a real commitment by Member States to meet their obligations fully will overcome the financial problems of the Organization and, in his report, the Secretary-General has challenged Member States to put forward ideas to encourage Member States to pay their dues on time and to restore the financial solvency of the Organization.

Proposal for establishment of the Revolving Credit Fund

3. In the absence of adequate capital and reserves, the Secretary-General has indicated that it is essential to find immediate practical measures to complement the ongoing search for a more fundamental solution of the financial problems of the United Nations. In this context, he has proposed that a Revolving Credit Fund be established, initially capitalized at a level of up to $1 billion through voluntary contributions or any other means of financing that Member States may wish to suggest. Such a fund could be used by the Secretary General to finance, on a recourse basis, any newly arising overdue assessment payments of Member States.

4. Establishment of the Fund would also involve a change in the financial arrangements set out in the Financial Regulations and Rules of the United Nations, requiring approval by the General Assembly.

Advances from the Revolving Credit Fund

5. The Financial Regulations provide that assessed contributions shall be due and payable in full within 30 days. Under the procedures proposed for the Revolving Credit Fund, the Secretary-General could, consistent with the purpose of the Fund, notify any Member State that certain assessments had fallen past due by 90 days and would ask the Member State to specify the future date of

payment of the amount. This notification from the Secretariat and subsequent response from the Member State would be in such legal form as to allow the Secretary-General to pledge it as security for an advance from the Fund.

6. Upon receipt of a response from a Member State so notified, the Secretary-General could authorize, at such time and in such amount as he deemed appropriate, an advance from the Revolving Credit Fund up to the amount of the unpaid assessed contribution in question. It should be emphasized that such an advance would not constitute payment of the assessment in question and would not affect the application of Article 19 of the Charter of the United Nations to the Member State in question.

7. Upon receipt of the notified amount from the Member State concerned, the amount of the related advance would be returned to the Revolving Credit Fund. Consistent with the Financial Regulations, contributions received would still be applied against the oldest outstanding assessments in the Organization's accounts, although advances from the Fund would be repaid as soon as the notified contribution was received in the appropriate account.

8. The purpose of the Revolving Credit Fund would be to relieve cash flow pressures on the functioning of the United Nations. Accordingly, it is intended that the procedures outlined for the Fund would only be used in respect of outstanding amounts greater than $250,000.

Income of the Revolving Credit Fund

9. Any cash balances in the Revolving Credit Fund would be invested and the income and capital gains/losses added to the Fund. Initially, it is anticipated that such investment would be short-term only but, depending on the position of the Fund, the Secretary-General could authorize longer-term investments, consistent with the liquidity requirements of the Fund. In that event, he would seek the advice of the Investments Committee.

Authorized retained surpluses

10. Use of the Revolving Credit Fund for advances against unpaid assessed contributions of Member States would reduce the income to the Fund from the investment of cash balances. Member States, against whose unpaid contributions advances have been made from the Fund, would bear the opportunity cost of financing such advances from the Fund. This would be done first through adjustment of amounts owed to them by the Organization for prior year surpluses not yet reimbursed, up to the level of their share of such surpluses. Conversely, the surplus balances of Member States providing voluntary contributions to the Fund would be adjusted accordingly. The cost of financing advances in amounts exceeding the accumulated surpluses would however not be allowed without General Assembly agreement.

11. At 31 December 1995, authorized retained surpluses stood at just over $200 million, as follows:

	Millions of United States dollars
General Fund	68.4
United Nations Disengagement Observer Force	49.6
United Nations Interim Force in Lebanon	82.9

12. In order to simplify the mechanism for operating the Revolving Credit Fund, it is proposed that the authorized retained surpluses referred to above, as well as any others that the General Assembly may from time to time authorize, be consolidated in a new single retained surpluses account.

13. It is proposed that, consistent with current practice for the regular budget, the shares of Member States as regards authorized retained surpluses should be allocated by applying the current regular budget and peacekeeping scales to the currently retained surpluses. Should any surpluses be added to the retained surpluses account in future, these could be allocated between Member States, using relevant scales of assessment then in force.

14. Adjustments to the shares of Member States in the retained surpluses would be made annually. Negative adjustments would be made in the shares of Member States against whose arrears advances are made from the Revolving Credit Fund, up to the full amount of such shares. These would be based on the amount and period of advances from the Fund against unpaid assessed contributions of each Member State concerned and the rate of return available on cash balances in the Fund, that is, the opportunity cost of making such advances. Corresponding positive adjustments for Member States contributing to the Fund would be based on the amount of their contribution and the date on which it was available to the Fund.

Conclusion

15. The Secretary-General advances this proposal as one approach to tackling the chronic financial problems that have plagued the United Nations. He reiterates, however, his challenge to Member States to suggest other measures to overcome these problems.

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UNITED NATIONS REFORM: MEASURES AND PROPOSALS

Creating a dividend for development

Note by the Secretariat

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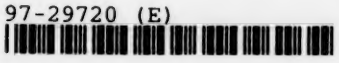

Introduction

1. The present paper provides an elaboration of the Secretary-General's proposal for the establishment of a development account, as contained in paragraphs 57 to 58, and 234 to 235, actions 21 and 22 and related recommendation, in his report dated 14 July 1997 (A/51/950).

Proposal

2. The Secretary-General has stated that up to 38 per cent of regular budget resources is devoted to non-programme costs, defined as administrative and information costs. The aggregate amount of non-programme costs has been determined on an analytical basis. Such non-programme costs include full costs of direct administrative support and public information, as well as a proportion of executive direction and conference services devoted to administrative, budgetary and personnel matters. While a large proportion of these costs are in the central service departments, they are incurred across the entire Organization.

3. The Secretary-General is committed to reducing these non-programme costs under the regular budget by about one third and has proposed to turn savings in administrative costs into a "dividend for development". This goal is expected to be fully achieved in the biennium starting 1 January 2002 through enhancing effectiveness and implementing management reforms, without impacting mandated programmes.

Outline

4. The general increase in delivery expectations by Member States at a time of decreasing resources is a phenomenon faced, not only by the United Nations, but also in national Governments and private and public sector enterprises worldwide. The Secretary-General intends to respond to the situation as related to United Nations activities by increasing the outputs to Member States from the resources made available to him. Accordingly, he intends to reduce these non-programme costs, now reflected in various components of the budget, and reallocate the funds to visible and quantifiable outputs within economic and social activities. The Secretary-General, in the context of the biennial budget, would recommend to the General Assembly the level of resources to be allocated to the development account. This figure would be based on proposed reductions in non-programme costs and would be fixed for the ensuing biennium.

5. It is widely accepted that, to enhance outputs, bureaucratic structures must be streamlined and procedures must be simplified. In this regard, a number of initiatives and reviews are being undertaken which should lead to simplification of processes, procedures and rules; consolidation of common services wherever economical and feasible; and increases in the efficiency and effectiveness of programme delivery, through further enhancement of the information technology component of the system to create an electronic United Nations. To this end, programme managers are being asked to initiate and actively participate in the reduction of redundant administrative practices and will be empowered to act decisively in their areas of responsibility. Ideas for improvement are being sought from managers and staff alike and the resultant

benefits, once turned into savings, would be plowed back into development initiatives in the economic and social sectors. A one-time effort will, however, not be enough. The challenge is to institutionalize ways of:

- Delivering Member States' mandates more cost-effectively;

- Reducing administrative overhead;

- Translating the resultant savings into programme benefits.

6. The responsibility for delivering the "dividend for development" rests with individual managers throughout the Organization, who have already demonstrated their commitment to reducing costs, as well as a capacity for innovative thinking. Over 550 efficiency projects, under way or completed, combined with the completion of a number of simplifications of administrative processes, provide ample evidence of what can be achieved when individual managers are given the flexibility to improve the efficiency and effectiveness of their own departments and offices.

Delivering the dividend for development

7. Non-programme costs in the revised estimates for the 1998-1999 biennial budget are some $50 million less than included in the original 1996-1997 biennial budget. The Secretary-General proposes that, effective 1 January 1998, the Development Account be initially established at $12.7 million, as indicated in his report dated 11 September 1997 (A/52/303).

8. Within the Secretariat, the creation of the dividend for development requires a two-pronged approach by all departments and offices. First and foremost, targets will be established over the next two bienniums to decrease non-programme costs, and second, ongoing management reviews will be conducted, which will enhance the delivery of mandated programmes.

9. The Secretary-General is pursuing seven major managerial reform strategies which have significant potential for ensuring that the dividend for development will continue to grow, and which will also lead to a more efficiently and effectively managed Organization. Within that overall framework the responsibility for delivering the reductions to be converted into a dividend for development rests mainly with individual managers in the non-programme field. This does not preclude all managers from initiating projects which lead to increased effectiveness within their own departments. Furthermore, the efforts of individual departments are being supported and enhanced by Organization-wide reforms, to deal with global administrative issues, which individual departments cannot change on their own.

10. On their part, Member States will have an equally important role to play in the simplification and streamlining processes leading to savings, and their support of the Secretary-General's initiatives would be an essential ingredient to the overall success of this proposal.

Programme objectives

11. The overall programme direction for the Development Account would be agreed by the General Assembly, which would be provided a range of proposals and would be asked to select from among them those that should be funded from the Development Account. Programming of such resources will be focused on global, interregional and regional issues, on the premise that national development plans are addressed through other multilateral and bilateral programmes.

Programme direction and management

12. The Under-Secretary-General for Economic and Social Affairs will serve as the Programme Manager for the Development Account and will oversee its administration and implementation. In developing recommendations on behalf of the Secretary-General, he will receive inputs from the Executive Committees and the United Nations Development Group as appropriate, so that a coordinated and comprehensive set of proposals is submitted to the General Assembly at the time it is considering the proposed programme budget, using the following criteria:

- Projects would be distinctive and further the organizations' development goals;
- Projects would be finite, capable of completion within two bienniums;
- Projects will contain succinct objectives, measurable outcomes and clear performance indicators;
- Projects will complement, not substitute for existing programmes.

13. The Development Account will be administered and implemented in accordance with the Financial Regulations and Rules of the United Nations.

14. Once programmes and projects are approved by the General Assembly, the Controller will issue the relevant allotment(s) to the programme manager(s).

Performance reporting

15. The Secretary-General will submit an annual report to the General Assembly on a post facto basis on objectives and outputs achieved, containing analytical information on the projects funded.

Review and monitoring

16. In consultation with the Under-Secretary-General for Economic and Social Affairs, the Under-Secretary-General for Management will be responsible for the regular review, evaluation and monitoring of programme delivery, using performance and programme criteria set by the General Assembly, the results of which will be contained in the annual performance report.

Conclusion

17. The Secretary-General is confident that, with Member States' support, the measures outlined above will not only deliver a Dividend for Development that will contribute substantially to the United Nations economic and social development goals, but also result in a better managed Organization working in line with Member States' priorities.